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COMMITTEES:
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June 7, 2019

Dear Colleague,

Please find the attached article regarding a study by the Tax Foundation showing that current and proposed tariffs would negate all the economic benefits of tax reform. Following the 2016 election, our economy broke loose from years of steady-but-tepid growth. Our pro-growth policies have provided the boost Americans expected. GDP growth in 2018 was nearly 3%. First quarter growth this year was 3.1%. Unemployment is at historic lows. Wage growth is accelerating. More workers are coming off the sidelines and straight into jobs. Many Americans know their economy is strong – they feel it in their pocket books.

The proposed tariffs will take money out of those pocket books and undermine the pro-growth tax and regulatory reforms at the heart of our economic boom. According to the Tax Foundation study, the proposed tariffs on China, Mexico, and Europe, among others, amounts to a "significant tax increase on Americans." The Tax Foundation, which was among the most vocal supporters of the 2017 tax reform, has concluded that these tariffs will essentially wipe out all of the reform's benefits. What is more, as the article notes, the impact of these tariffs will be "concentrated . . . at the lowest rungs of American income earners." The net effect of the tax reform and the tariffs will be a 1.1% tax increase for the lowest 20% of income earners; a 0.3% increase for those in the middle; and a zero net change for the upper-middle-class.

Hardworking Americans are unlikely to overlook the hit to their pocket books. As the chief economist at the Tax Foundation explained, it will get "harder and harder for [the President] and Republicans to claim that they are cutting taxes for the middle class."

I am all for fair trade. I am all for securing our border. But I am not for turning our backs on American workers and consumers. Nor can I turn my back on the free market truths that have made America's economy the strongest in the world.

Sincerely,

Cory Gardner
United States Senator

The New York Times

Trump's Tariffs Could Nullify Tax Cut, Clouding Economic Picture

By Jim Tankersley

June 3, 2019

WASHINGTON — President Trump's tax cuts provided a temporary jolt to the United States economy by putting more money into taxpayers' pockets. The tariffs that Mr. Trump has grown so fond of may have the opposite effect.

Two new analyses show that the tariffs Mr. Trump is using to punish China, Mexico, Europe and other governments would more than wipe out any gains from his $1.5 trillion tax cut for low- and middle-income earners, leaving them with less money to spend into a consumer-driven economy. Higher earners would fare only slightly better, with their tax gains significantly eroded but not entirely washed away.

The potential for Mr. Trump's tariffs to nullify his signature tax cut shows how the president's trade war could undermine his biggest selling point going into his 2020 re-election campaign: a strong economy.

Investors, bond markets and Wall Street analysts appear increasingly alarmed by the potential slowdown in growth that could result from Mr. Trump's trade escalations, including his plan to impose tariffs of up to 25 percent on Mexican goods and to tax everything that China imports into the United States. He is also mulling tariffs on imported automobiles from Europe and Japan.

Yields on Treasury bonds are tumbling, as investors seek safe harbor against growing fears of an economic downturn. A closely watched survey of manufacturing activity declined at a faster rate than forecasters expected on Monday, with several business owners citing rising concerns over the cost and uncertainty brought on by tariffs.

Analysts have abruptly changed their forecasts for Federal Reserve policy this year and are now predicting as many as three rate cuts as concerns grow that the Fed will need to take drastic action to prop up the economy. JPMorgan and Evercore ISI now project a total of two interest rate cuts starting in September, and Barclay's predicts three cuts, up from previous estimates of a single rate cut at most for 2019.

In a speech on Monday, the president of the Federal Reserve Bank of St. Louis, James Bullard, said a cut in interest rates "may be warranted soon" in order to stoke inflation and "provide some insurance in case of a sharper-than-expected slowdown" in growth. The Fed, he said, "faces an

economy that is expected to grow more slowly going forward, with some risk that the slowdown could be sharper than expected due to ongoing global trade regime uncertainty."

Mr. Trump's trade war has been building for months, with the president hitting everything from South Korean washing machines to Japanese steel rebars to Chinese semiconductors. The American economy has been slowly starting to feel the effects through rising prices and slowing business investment. The Federal Reserve Bank of New York estimates that the tariffs cost the typical American household $414 in 2018. That is estimated to increase to $831 per household given Mr. Trump's recent move to raise Chinese tariffs to 25 percent.

In a news conference in Washington on Monday, Mexican officials argued that tariffs were likely to backfire on the United States. The financial cost of tariffs could actually lead to more economic trouble and job loss in Mexico, prompting a larger wave of migrants headed north, they said.

"It will certainly weaken the Mexican economy, and where is the impetus for the United States economy of having a weaker neighbor?" said Jesús Seade, the deputy foreign minister for North America.

Mr. Seade said that auto parts often cross the border as many as eight times as they travel through the supply chain, meaning a 5 percent tariff on each crossing could quickly compound and exact a much higher economic toll on both countries.

The proposals would hit many of the daily staples of middle-class American life, including vegetables, fruits and beer from Mexico. They would raise the price of larger-ticket items like laptops and cars. Shirts and tennis shoes from China would also get hit.

The president insists that his tariffs are not hurting Americans and that his trade policy will help create jobs and investment in the United States. "No visible increase in costs of inflation," he wrote Monday on Twitter about the tariffs on China, "but U.S. is taking Billions!"

But lawmakers and economists are starting to worry that the trade war is taking an economic toll.

Senator John Thune of South Dakota, the No. 2 Senate Republican, said his colleagues were clearly uneasy with Mr. Trump's plan to impose tariffs on Mexico.

"We are going to have a lot of our members who are very concerned about where this is headed and what it means for the economy generally and don't see it as a path to solve immigration issues," Mr. Thune said.

"I think the president has done a lot of really good things for the economy," he said. "We've seen growth and jobs and wages all moving in the right direction. And I don't know why we would want to step on that."

Economists say the tariffs already amount to a significant tax increase on Americans, by raising the prices of goods they buy, according to new studies from the Tax Foundation in Washington and the Penn Wharton Budget Model at the University of Pennsylvania. The damage is concentrated, as a percent of income, at the lowest rungs of American income earners, who spend a larger share of their salaries on imports than the upper middle class and the rich.

Additional tariffs on Mexico and China would wipe out all or most of the benefits his 2017 tax cuts delivered to low- and middle-income Americans, the analyses found.

Higher-income Americans would still be net winners from Mr. Trump's tax and tariff policies, but their benefits would be diminished as well.

"Once you start adding in the tariffs and start talking about what Trump wants to do at the end of the day," said Kyle Pomerleau, the chief economist at the Tax Foundation, which produced its analysis at the request of The New York Times, "it gets harder and harder for Trump and Republicans to claim that they are cutting taxes for the middle class."

The Tax Foundation projected widespread benefits from the Trump tax cuts, with the largest gains, in dollar terms and as a share of income, concentrated among high earners. Its new analysis, of the distributional effects of Mr. Trump's imposed and threatened tariffs, finds widespread harm to Americans, who would pay higher prices on imported goods.

Accounting for both the tax cuts and the full range of tariffs, the Tax Foundation estimates, the lowest-earning fifth of American taxpayers would see an effective tax increase of 1.1 percent of their income this year. Those in the middle fifth would see a 0.3 percent tax increase. Upper-middle-class earners would have their gains from tax cuts wiped out. Only the top 5 percent of earners would continue to see a net tax cut of more than 1 percent on the year.

Even if Mr. Trump does not follow through with auto tariffs, his plan to tax all Chinese and Mexican goods would still amount to a net tax increase for the poorest Americans, the Tax Foundation found. Middle-class taxpayers would effectively lose the benefits of their tax cuts but pay no additional tax. The rich would continue to enjoy a net tax cut.

The model also finds that the tariffs would almost entirely offset the federal revenue losses from the tax cuts, raising about $200 billion next year against a $230 billion loss from the cuts.

The findings are echoed by projections from the Penn Wharton Budget Model, which forecast more modest benefits from the Trump tax law than the Tax Foundation did.

In a new analysis, Penn Wharton researchers found increased costs of consumer goods would more than offset the benefits of tax cuts for the lowest-earning Americans next year. That assumes all the China and Mexico tariffs — but not auto tariffs — are instituted, and that American consumers initially bear the full cost they impose. That impact could be mitigated somewhat over the long run, the researchers said, if producers absorb some of those costs rather than pass everything on to consumers.

Workers earning median incomes would see most, but not all, of their benefits wiped out. A typical middle-class taxpayer would expect to receive about $471 in 2020 from the tax cuts, the researchers found, but tariffs would reduce that benefit to $159. A typical high-income taxpayer would see a $4,272 net benefit from Mr. Trump's tax and trade policies, even after accounting for the tariffs.

"Ultimately, the tariffs make all consumers worse off," said Richard Prisinzano, a senior economist at the Penn Wharton Budget Model. "The question is how much worse off."

In the event that growth slows — or that tariffs lead to a confidence collapse that plunges the United States into recession — history suggests high earners will suffer less than the poor. High-earning Americans have more than regained the wealth they lost from the 2008 financial crisis and ensuring recession, Fed statistics show. Low-income families still have not made up all the ground they lost.

Ana Swanson and Nicholas Fandos contributed reporting.

A version of this article appears in print on June 4, 2019, on Page B5 of the New York edition with the headline: Tariffs Could Negate Gains From Tax Cut